



**EXECUTIVE OFFICE**

462 Shelburne Road  
Suite 301  
Burlington, VT 05401

April 18, 2017

Via email to [Lori.Perry@vermont.gov](mailto:Lori.Perry@vermont.gov) and [Conor.Kennedy@vermont.gov](mailto:Conor.Kennedy@vermont.gov)

Green Mountain Care Board  
89 Main Street, Third Floor, City Center  
Montpelier, VT 05620

Re: FY 2016 budget actuals (UVM Medical Center and Central Vermont Medical Center)

Dear Green Mountain Care Board members:

I am filing this letter on behalf of the University of Vermont Medical Center (UVM Medical Center) and Central Vermont Medical Center (CVMC), the two Vermont-based members of the University of Vermont Health Network whose budgets are subject to annual review by the GMCB.

You have asked for our recommendations on how to address the fact that collectively, our hospitals ended FY 2016 with an operating margin of \$23.1 million over the approved budget. As we have discussed, the revenues above the approved amounts reflected a variety of factors. The largest influence, by far, was an increase in the number of patients we served from what was budgeted – but that increase was consistent with what we started experiencing in FY 2015, as more Vermonters were covered by either commercial insurance or Medicaid under the Affordable Care Act.

As you consider what action, if any, to take with respect to our FY 2016 budget performance, we ask you to consider the following:

- The rate increase for the UVM Health Network was at an all-time low of 2.45% for FY 2017. This is coming down from a high of 9.4% in 2013 for the UVM Medical Center and 6.9% in 2014 for CVMC, and reflects our continued commitment to managing expenses while ensuring we meet our mission and at the same time make significant investments in reform efforts. Recognizing the need to be responsive to unbudgeted operating margin, we commit to submitting a FY 2018 budget that includes a rate increase of no more than 2% – below even this year’s historically-low rate. The GMCB could then factor that rate into your rate reviews for insurers for 2018, with the goal of drawing a direct connection between our low rate increases and premium increases.

- In the meantime, hospital rates statewide have been steadily reduced over the past few years through the hard work of the GMCB and hospitals. Last year's system-wide rate increase was 1.75%, the lowest-ever in Vermont.
- Our FY 2017 performance, year to date, is in line with our approved budget. We believe this is because the rate changes that went into effect on October 1 – which included reductions based on FY 2015 actuals and FY 2016 actuals at the time our budget was submitted – have substantially achieved the GMCB's goal of "right-sizing" our prices.
- Medicaid has already adjusted its payments to us in FY 2017 to reflect overpayments in FY 2016, as well as the legislative direction to reduce specialty care payments by \$4 million in order to enhance primary care payments. Both CVVMC and the UVM Medical Center were impacted by these reductions. Together, the adjustments amount to a \$7.9 million decrease in FY 2017 payments, which exceeds our \$7.5 million in unbudgeted Medicaid revenues in FY 2016.
- Our hospitals are in the forefront of the move to a completely different payment model, one that moves away from fee-for-service volume-driven care to value-based care. We are participating in this year's Medicaid NextGen ACO Program, where we are paid a fixed per-member per-month amount. We intend to extend that model to include Medicare and – if our payer partners are willing – commercial insurers in 2018. We urge you to take this willingness to accept risk into account in your deliberations, as this shift in approach requires us to build reserves and maintain financial strength.
- Revenue performance under the All-Payer ACO Model uses a different measure: the increase in total cost of care *per capita*. As Rick Vincent suggested at the meeting on April 13, were we to be measured using that metric, our financial performance would look very different. According to data provided by OneCare Vermont, at the end of FY 2014 – before the expansion of coverage under the ACA – UVM Medical Center's per-member per-month cost for all payers was \$498. At the end of FY 2016, that PMPM was \$499. Under the APM, the target for FY 2016 would have been a PMPM of \$533 – substantially higher. The difference in revenue between our actual PMPM performance of \$499 and the target PMPM of \$533 is \$10.7 million.
- Beating our margin target is a positive outcome. As we committed to you when we were seeking approval for the Miller Building project, our system needs to continue to reduce our expenses and increase other operating revenues in order not to increase rates to pay for that and other major capital investments. UVM Medical Center is doing exactly that – holding our expenses in check even as we deliver services over and above what we anticipated in our budget. CVVMC, in turn, has taken steps to reduce its expenses, most notably through

managing labor costs. In the first half of FY 2017, it has already succeeded in cutting its traveler cost in half.

- Maintaining our A-level credit rating is a key priority for the UVM Health Network. As an example, that rating allowed us to refinance debt recently to save \$1.5 million in interest costs each year, and will end up saving \$27 million over the life of the loans. Because the credit agencies rate us as a network – not as individual hospitals – our hospitals have every incentive to work together to manage our budgets and our expenses. If one hospital under-performs, others need to out-perform. We continue to believe that considering us as a network for budget review purposes is the appropriate approach.

We also ask that you not require the UVM Health Network to make a mid-year rate reduction. As we have discussed, neither Medicare nor Medicaid will pay us differently if we reduce our rates, and (unlike some other hospitals) the vast majority of our commercial revenues are governed by contractual arrangements that would have to be renegotiated. Even if we were successful at doing that in a short period of time (which experience tells us is unlikely), the insurers' premiums for 2017 have already been set; thus, ratepayers would not actually get the benefit of any rate cuts. Instead, they would fall to the insurers' bottom lines. So far, rate reductions do not appear to translate into reduced premiums. Last year, Vermont's five largest hospitals – which represent 77 percent of the market – either had rate decreases or historically-low increases, yet we did not see any noticeable changes in pricing to consumers by the insurers.

Finally, we note that our hospitals face a high degree of financial uncertainty at this moment. Our ability to live up to the commitment to come in with no more than a 2% rate increase for FY 2018 will depend on the extent to which these or other major revenue impacts materialize:

- We do not know yet what impacts the state budget will have on our revenues. Proposals have ranged from reducing DSH payments by anywhere from 10% to 100%. For our hospitals, this ranges anywhere from \$2.2 million to \$22 million.
- The GMCB's February 1 Act 143 report has recommended significant payment changes relating to professional fees. The two major commercial payers (Blue Cross and Blue Shield of Vermont and MVP) have proposed different ways of implementing those changes, but both have recommended that any reduction in professional fees not be offset by increases in other rates. Should the GMCB accept those proposals, the collective impact to our hospitals will be in the millions of dollars.

We anticipate addressing all of this in detail as part of our FY 2018 budget submission, when we will have more clarity on these unknowns.

Given these considerations, we believe the most appropriate option is that the GMCB make no budget adjustment at this time, but closely monitor our FY 2017 budget performance for the balance of this fiscal year and review our FY 2018 budget submission in light of our commitment to hold rate increases to no more than 2%.

Thank you again for inviting us to speak with you about our budget performance on April 4, and this opportunity to make recommendations as to how to proceed.

Sincerely,

A handwritten signature in black ink, appearing to read "John R. Brumsted". The signature is fluid and cursive, with the first name "John" and the last name "Brumsted" clearly distinguishable.

John Brumsted, MD  
President and CEO, UVM Health Network  
CEO, UVM Medical Center